Net dollar gain

Top 10 managers over $1 billion

Firm	$ millions
Bankers Trust	13,300
Travelers Cos.	5,226
Boston Co.	5,157
JMB Institutional Realty	4,424
Mellon Capital Mgmt.	4,200
State Street Bank and Trust	3,900
Prudential Asset Mgmt.	3,800
Copley Real Estate Advisors	3,300
Pacific Investment Mgmt.	2,622
Manufacturers Nat'l Bank of Detroit	2,205

Top 10 managers $250 mil. to $1 bil.

Firm	$ millions
Capstone Asset Mgmt.	615
Columbus Circle Investors	394
Allstate Life Insurance	360
Daniel Breen	326
Oechsle Int'l Advisors	299
Julius Baer Investment Mgmt.	269
Posthorn Global Asset Mgmt.	260
Beutel, Goodman Int'l	255
Confederation Life Insurance	251
Hahn Holland & Grossman	250

Top 10 managers under $250 million

Firm	$ millions
Consistent Asset Mgmt.	154
Boston International Advisors	144
Trinity Advisors	113
Ariel Capital Mgmt.	101
Cambiar Investors	86
SBC Portfolio Mgmt. Int'l	85
Palley-Needelman Asset Mgmt.	84
Marathon Asset Mgmt.	75
Penreal Advisors	71
Cadinha	69

Basics still hold appeal

Indexers and quantitative managers scored well in attracting domestic equity business during 1987, but there was room for fundamental approaches as well.

Among managers with more than $1 billion in total assets, the top four gainers and six of the top 10 have most or all of their equity assets in index funds. Among those with between $250 million and $1 billion in total assets, the second-highest gainer is an indexer. Managers were asked to report business gained between Jan. 1 and Dec. 1 of 1987.

For the fourth consecutive year, Wells Fargo Investment Advisors, San Francisco, reported the most new equity business among large managers. It gained nearly $7.2 billion, all indexed.

Bankers Trust Co. — Investment Management Group, New York, was second with $4.8 billion, of which $2.5 billion was indexed; Alliance Capital Management Corp., New York, was third with $1.9 billion, of which $1.3 billion was indexed; and Mellon Capital Management Corp., New York, was fourth with $1.8 billion, all indexed.

Others with large portions of indexed assets among their new domestic equity business were State Street Bank and Trust Co., Boston, with $725 million indexed among its $860 million in new equity business, and American National Bank and Trust Co. of Chicago, with $600 million indexed among its $700 million in new business. Two others, Prudential Asset Management Group, Newark, N.J., and The Boston Co. Inc., Boston, had smaller portions indexed.

Indexing has grown partly because the majority of active equity managers have underperformed major market indexes. But, pension fund executives still hold a place for active managers with strong

Continued on page 31

Indexing top draw

Interest in real estate, GICs rides high

By Trudy Ring

Passive management was the major theme of tax-exempt fund investing during 1987.

About half the money placed by pension funds and other tax-exempt institutions in equity accounts and a third of the dollars in fixed-income accounts went to index funds during 1987, continuing the trend toward passive core management.

Real estate, guaranteed investment contracts and international/global investing continued to grow in favor with pension funds, while portfolio insurance business was down significantly from 1986.

A total of 266 money managers responded to *Pensions & Investment Age*'s Scorecard survey. They reported net growth of $107.5 billion in tax-exempt assets under management in the 11 months ended Dec. 1. This figure takes into account contributions from new and existing clients, client withdrawals and return on investment.

A year ago, 259 managers reported a net gain of $179.7 billion in assets under management during 1986.

For 1987, participating managers reported $74.2 billion in contributions from new clients; $55.8 billion in additional contributions from existing clients; and $2 billion in market appreciation, dividends and interest. The sum of these is greater than the $107.5 billion because of client withdrawals.

Also, the net growth for several managers was less than the sum of their new business in various asset classes because of client withdrawals and also because of market factors, particularly the October stock market plunge.

For instance, Wells Fargo Investment Advisors, San Francisco, was the top gainer of equity business for the fourth consecutive year and was second in new fixed-income business, but because of market losses showed a net decrease of $5.4 billion in assets under management.

Still, Wells Fargo's showing in attracting business indicates the continuing popularity of index funds. The firm only offers passive management capabilities.

The managers surveyed reported $17.5 billion of their new business was for stock index funds, but they were not asked to break this out between domestic and international. Most of this was domestic, as international stock index funds, while growing, are a relatively new strategy.

A leader in this area is State Street Bank and Trust Co., Boston, which won $1.3 billion in new international equity business, largely indexed.

The total new domestic equity business, including indexing, for all respondents was $34.5 billion; international equity accounted for $5.5 billion.

Total new domestic bond business was $31.8 billion; of that $10.6 billion was indexed. There was $1.5 billion in new international bond business. International bond index funds are being marketed, but have yet to attract substantial assets.

"There's no deep secret as to why (indexing has boomed) — the inability of active managers to match the indexes," said Peter Braun, vice president and director of marketing at State Street Bank.

In last year's survey, Scorecard

Continued on page 31

Most new equity business (net)

Top 10 managers over $1 billion

Firm	$ millions
Wells Fargo Investment Advisors	7,175
Bankers Trust	4,834
Alliance Capital*	1,948
Mellon Capital Mgmt.	1,800
Prudential Asset Mgmt.	1,240
Sun Banks Investment Mgmt.	1,083
Rosenberg Institutional Equity Mgmt.	1,063
Boston Co.	991
State Street Bank and Trust	860
American Nat'l Bank, Chicago	700

* as of Dec. 31

Top 10 managers $250 mil. to $1 bil.

Firm	$ millions
Columbus Circle Investors	328
Capstone Asset Mgmt.	324
Hahn Holland & Grossman	193
John McStay Investment Counsel	174
Westwood Mgmt.	155
Renaissance Investment Mgmt.	141
Eagle Asset Mgmt.	138
Disciplined Investment Advisors	133
Tom Johnson Investment Mgmt.	132
Investment Advisors	121

Top 10 managers under $250 million

Firm	$ millions
Ariel Capital Mgmt.	118
Cambiar Investors	111
Scudder, Stevens & Clark	97
Marathon Asset Mgmt.	75
WEDGE Capital Mgmt.	69
Aronson & Fogler	50
Derivative Markets Mgmt.	50
Astrop Advisory	43
Dietche & Field Advisers	32
Cramer Rosenthal McGlynn	30

Assets allocated to bonds up 31%

By Trudy Ring

Much of the bond business that flowed to large money managers in 1987 went into index funds, while that allocated to midsize and small firms went to strategies with a particularly good track record or a special market niche.

Among managers participating in *Pensions & Investment Age*'s Scorecard survey, the amount placed in bonds was up 31% from that reported in 1986, to $31.8 billion from $24.3 billion. Managers differed as to whether bond management will continue to grow in the wake of October's stock market crash.

Among managers with more than $1 billion in total tax-exempt assets under management, those heavily in index funds took four of the top 10 spots for new bond business. Two others had smaller portions of their bond assets indexed.

Those with a majority of their new bond business indexed were Wells Fargo Investment Advisors, San Francisco, in the second spot with nearly $3.3 billion, all indexed; Putnam Cos. Inc., Boston, third with about $2.4 billion, of which $1.6 billion was indexed; State Street Bank and Trust Co., Boston, fifth with $1.4 billion, of which $1.2 billion was indexed; and Lincoln Capital Management Co., Chicago, with $893 million, all indexed.

In terms of assets attracted, bond indexing seems to be where stock indexing was a few years ago, said Peter Braun, vice president and director of marketing at State Street. It has become apparent to pension executives that a majority of active bond managers, like a majority of active stock managers, have been unable to outperform major market indexes, he said.

Still, while pension sponsors use index funds as a core investment, it would be unusual to see any pension fund 100% indexed, he added.

The top firm, Bankers Trust Co. — Investment Management Group, New York, is a force in indexing but attracted assets for other fixed-income strategies as well. Of its nearly $3.5 billion in new bond business,

Continued on page 31

PORTFOLIO MANAGEMENT

Restrictions 'poor medicine'

Pension execs greatly favor free market

By Barry B. Burr

Pension fund officials registered the strongest opposition among groups surveyed by the Brady Commission to suggested restrictions on trading following the Oct. 19 market crash.

They were most opposed to proposals to ban program trading, forbid or limit portfolio insurance; prohibit or constrain the use of financial derivative instruments; and place price limits on futures.

On other issues, pension officials more than others surveyed believe psychological, rather than technical or fundamental, factors were the overwhelming cause of the Oct. 19 crash, the survey showed.

In the survey, most pension funds reported the value of their equity portfolios fared better than the market on Oct. 19.

The Brady Commission, formally known as the Presidential Task Force on Market Mechanisms, surveyed 15 groups of market participants and experts, including corporate and public pension funds, securities exchanges, mutual funds, investment banks and Nobel prize winners in economics. The survey asked their attitudes on suggested trading restrictions and their opinions on why the market crashed. The task force released its 371-page report in January.

The task force sent surveys to two groups of pension funds — the 50 largest U.S. corporate pension funds (of which 25 responded) and 149 private and public pension funds on portfolio insurance (of which 80 responded).

Pension funds using portfolio insurance had a larger percentage of their assets in equities than those not using the strategy designed to limit downside risk, according to the second survey.

The 80 respondents in that survey had an average of 46% of their assets in equities as of Sept. 30. Of those, 11 were using portfolio insurance and had an average equity allocation of 56%.

The first survey showed corporate pension executives were strongly opposed to further regulation of the securities markets.

On program trading, 68% opposed any limit or ban, and 13% supported such action.

The most support and least opposition for restrictions on program trading came from banks and securities firms, recorded as one group. Some 29% were for restrictions, while 10% opposed. On average, 18% of all respondents favored such restrictions, while 25% were opposed.

Pension fund executives among the 50 largest corporate sponsors recorded the least support and strongest opposition to restricting portfolio insurance. Twenty-one percent were against any restrictions, while only 9% were for some.

Banks and securities firms again registered the strongest support for such restrictions, with 18% in favor and 5% against.

On average, 11% of all respondents are for such restriction, while the same percent are against such restriction.

Sixty-three percent of pension funds among the 50 largest corporate sponsors were against restrictions on financial instrument derivatives, while 13% were in favor. On average, 16% of all respondents favor restrictions, while 35% oppose.

On imposing price limits on futures, pension funds again recorded the strongest opposition, with 37% against and 26% in favor. On average, 31% of all respondents favored price limits, while 14% were opposed.

Respondents in general gave the most support to increasing margins on option and futures contracts, though pension funds still registered the strongest opposition. While 26% of the pension funds opposed such increases — by far the strongest opposition of any group — more pension funds — 35% — favored such raises.

Fifty percent or more of the banks and securities firms, mutual funds and largest money managers favored increases in margins.

The task force's survey found that nearly three-quarters of the responding pension funds saw the value of their equity portfolios fall 20% or less on Oct. 19. By contrast, the Standard & Poor's 500 stock index fell 20.47% that day.

Seventy-four percent of the pension funds lost between 12% and 20%, while 4% lost between 5% and 12%. Only 22% of the pension funds lost more than 20% on

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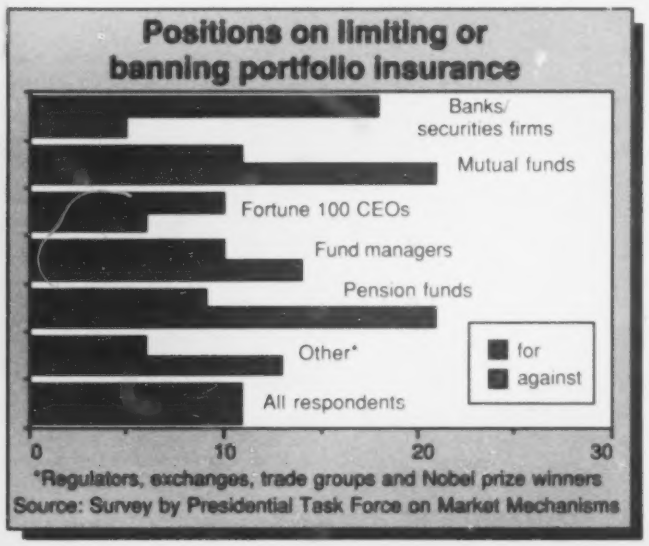

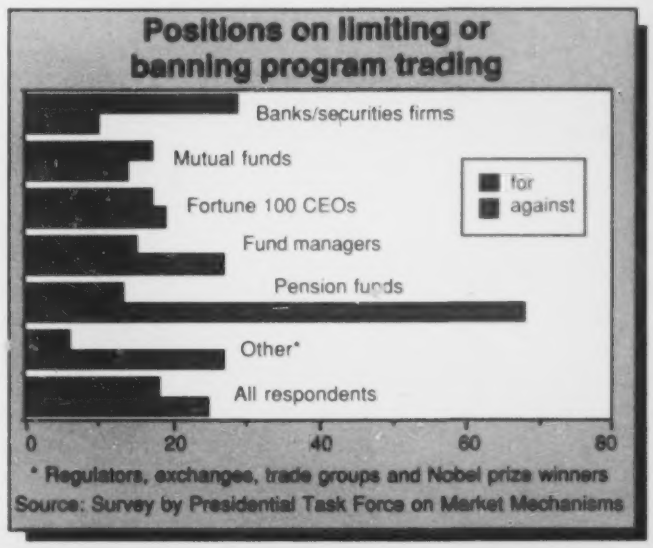

FEATURE

Evidence proves hedging worked

By Eric J. Seff

I intend to examine the apparent disappointing performance of portfolio insurance programs in light of theory. An examination seems particularly appropriate because the attackers of portfolio insurance are claiming the theory didn't work. Evidence points to the contrary.

When the market dropped Oct. 19 more than 508 points, or 22.61%, on the Dow Jones industrial average and 57.86 points, or 20.47%, on the Standard & Poor's 500 stock index, many portfolio insurance managers were unable to implement the sales of assets or futures at levels they previously had targeted. As a result, portfolios were more fully invested and did not benefit from as much protection as was planned.

This lack of execution is used as evidence the theory didn't work. A re-examination of the theory shows something else. What was actually experienced was the cost of increased volatility.

Volatility is a reflection of the level of the market's fluctuation. One popular way of looking at it is to measure the daily percentage changes of the market and calculate their mean. The standard deviation of the daily percentage changes about the mean is the number used as the daily volatility. Daily volatility can then be annualized by multiplying the daily volatility by the square root of the number of trading days in the year.

During the 27-year period from the start of 1959 (when Chase Investor Management Corp.'s data base begins) to the end of 1986, the average daily return of the market defined as the S&P 500 was 0.022% with a daily standard deviation of 0.79%. The annualized volatility was 12.61%. The statistics mean that two-thirds of the time the daily change in the market was expected to be 0.022%, plus or minus 0.79%. That is an expected range in return for the market any day of between 0.812% and −0.768%. As a result, the market's daily expected change was less than 1%.

For the 10-day period ended last Oct. 29, the average daily return was −1.97% and the daily standard deviation was 9.034% (an annualized 143.691%).

This means about two-thirds of the time the daily change in the market was expected to be in the range of −1.97% plus or minus 9.034%, or in the range between 7.064% and −11.004%.

The increased volatility was reflected in an increased cost of portfolio insurance.

Portfolio insurance programs can be implemented two ways: dynamically and statically. Dynamic implementation involves changes of investment exposure that are made during the course of the program to emulate the effect of purchasing an option. Static programs actually purchase the option. The latter program is considered static because the portfolio need not be adjusted during the life of the program except for rolling over.

Eric J. Seff is managing director at Chase Investors Management Corp., New York.

Portfolio insurance programs implemented dynamically have a cost based upon the actual volatility experience during the life of the program. Those implemented statically have a cost based upon premiums paid for options. A premium reflects implied volatility; once paid, that aspect of cost is locked up until expiration of the option.

Volatility is the single most important influence on hedging cost.

Most portfolio insurance programs were developed using historical data to reflect hedging costs. Market volatility, or standard deviation, of 12.6% during the 27-year period produced an average hedging cost of 3½% for a one-year at-the-money put.

However, for the first nine months of 1987, volatility had been running at closer to 16% with an implied cost of hedging of 4.6%. The expectations of both buyers and producers of portfolio insurance had been for continued volatility around that level.

Their expectations were not fulfilled. The market crash was accompanied by a tremendous increase in volatility. In the 10-day period ended Oct. 29, volatility shot up to an amazing 143% annualized rate. The corresponding theoretical hedging cost for this level of volatility is an astounding 47.7%.

Consider the ramifications of such a number. At 16% volatility, purchasing a put or creating one dynamically would have cost 4.6%. But at 140%, the cost is 47.7%. That's a very expensive hedging cost even though it is fair in the theoretical sense.

To protect an asset worth $100, you would be required to pay $47.70 for a put. Your asset must appreciate by 47.7% to overcome the cost of the put.

I would argue the difficulties experienced by dynamic hedgers are nothing more than the effects of living in a 140% volatility world when expectations had been based on a 16% level.

Most investors would not choose to employ portfolio insurance at these high levels of expected costs.

Does this mean portfolio insurance didn't work? Of course not. It does mean, however, that it might turn out to be increas-

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Hedging works

Continued from page 13
ingly expensive as volatility rises.

While this might not be much comfort to an investor who experienced a larger than expected loss, it is the correct explanation for what happened.

Well then, if portfolio insurance is too expensive, what else can the investor do?

Portfolio insurance involves buying an option, or creating one. In periods of high volatility, however, options might be undesirably expensive. If an option is too expensive to buy, why not sell it?

Selling options can be implemented by selling puts on the cash that was raised in reducing exposure to the risky asset.

A put at 47.7% might be too expensive to buy, but could present a very attractive selling opportunity. In an unchanged market, the put writer will gain by the amount of premium sold and collect interest on the cash, too.

A loss in this strategy can occur if that market declines more than an amount equal to 47.7% plus the interest income. In that case, the investor will buy stocks — at a loss.

Put writing reintroduces stock risk to the portfolio, but this can be used to determine the amount of cash to raise in the first place.

On the other hand, maybe you don't want to sell options; you only want to buy them. I've already established there are volatility levels at which one might be unwilling to pay for a "normal" one-year put, but you still have two other options:

- buy a put with a lower strike price, i.e. a higher deductible for your portfolio insurance "policy." The cost of this put will be lower and its level of protection will also be lower; or
- buy a put with a longer time horizon. Although a two-year put might cost more than a one-year put, its cost is not twice as much; therefore the cost per year is less.

The deductible for "insurance"

	Cost per year		
Deductible	One-year put	Two-year put	Three-year put
0%	9.62%	6.09%	4.54%
5	7.4	5.01	3.85
10	5.51	4.04	3.21
15	3.93	3.18	2.63
20	2.68	2.44	2.11
25	1.73	1.81	1.66

To illustrate the economics of a higher deductible I have chosen various strike prices for one-, two- and three-year puts. Assumptions include a 30% volatility with a 7.1% interest rate and 3.1% dividend yield.

As illustrated in the accompanying table, the greater the deductible, the lower the cost of the put — just like real insurance. Don't become euphoric when you first notice the dramatic reduction in costs: these options cost less because they are worth less. ■

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Market

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Black Monday.

By contrast, 28% of the mutual funds and 25% of the asset managers lost more than 20% on Oct. 19.

Psychological and technical factors were cited by the groups surveyed as the most important factors for the Oct. 19 crash. Each factor received 40% of the responses, while fundamental factors received only 20%.

But fundamental factors were cited by 77% of the respondents as the most important reason for the market decline the week preceding the Oct. 19 crash, compared with 17% for psychological and 6% for technical factors.

Pension funds by far leaned on psychological factors as the cause of the Oct. 19 crash.

Sixty-six percent of the pension funds — more than any other group — cited psychological factors. On the other hand, only 13% of pension funds cited technical factors, the least of any group surveyed.

The pension fund reaction was in stark contrast to other groups surveyed, which spread the blame for the Oct. 19 crash about evenly between psychological and technical factors.

Of the psychological factors most often cited by all groups as a cause of the Oct. 19 crash, panic was tops, followed by erosion of confidence in U.S. policies, investor nervousness and fear of the New York Stock Exchange closing. Pension fund reaction on psychological factors wasn't broken out separately.

Of the technical factors most often cited as a cause of the Oct. 19 crash, pension funds listed portfolio insurance as the most important (80%), stock index arbitrage as second (45%) and program trading as the least (25%).

Of the fundamental factors cited as the most influential in causing the market decline the week before Oct. 19, the groups ranked in importance rising interest rates, trade or budget deficits, overvalued bull market, declining value of the dollar and overall change in economic outlook.

Among the groups surveyed, responses came from seven of 15 Nobel prize winners, two of 12 discount brokers, 43 of the Fortune 100 chief executive officers, nine of 17 federal regulatory organizations, and 18 of 50 mutual funds.

Members of the the task force were appointed by President Reagan. ■

REAL ESTATE

Commitments up 52.6%

By John Covaleski

Tax-exempt institutional investors committed 52.6% more to equity real estate managers during the first 11 months of 1987 than they did a year earlier, a *Pensions & Investment Age* survey shows.

P&I Age's annual Scorecard shows the managers received additional commitments of about $10.85 billion between Jan. 1 and Dec. 1 of last year, vs. $6.879 during the same period of 1986.

The survey excludes gains from property appreciation.

The 52.6% increase was due to a variety of factors:

- With a 5-year-old bull stock market, a pension fund's assets rose, meaning more dollars had to go into real estate to maintain the same target asset allocation.
- Many fund executives decided to move into direct real estate investments, doing so without eliminating all of their commingled fund investments.
- Pension funds committed about $2 billion to the purchase of Cadillac Fairview Corp., a Toronto development company that was the largest real estate transaction ever.

The top 10 managers in the survey accounted for $8.689 billion, or 80.2%, of the total new real estate allocations. 1986's top 10 accounted for $4.682 billion, or about 68%, of the total.

Pension funds have moved to direct separate account investments, noted executives from several of the top 10 management firms.

David Glickman, president of Heitman Advisory Corp., Chicago, which ranked third in 1987 after finishing No. 1 in 1986, said two-thirds of his firm's $1.1 billion in new real estate contributions were from separate account business.

Most new real estate equity business

Firm	$ millions
JMB Institutional Realty	1,926
Copley Real Estate Advisors	1,240
Heitman Advisory	1,100
Equitable Real Estate Investment	991
Richard Ellis	670
LaSalle Advisors	618
Boston Co.	608
Jones Lang Wootton	600
TCW Realty Advisors	478
RREEF	458

Richard Ellis Inc., New York, which only handles separate accounts, reported $670 million — ranking it fifth — in new contributions in 1987, up from $301 million, and sixth place, in 1986.

And Copley Real Estate Advisors, Boston, which ranked second with $1.24 billion in new contributions, had about $600 million of that in separate accounts. The remainder is in the Developmental Properties Account and Copley Institutional Investors commingled funds. Copley was No. 3 in 1986 with $775 million in new accounts.

"There's a trend where the big players with significant core portfolios want separate accounts to have better control," added Leslie Farmer, a vice president with JMB Institutional Realty, Chicago.

JMB led all managers with $1.926 billion in contributions, but gained just $110 million in separate accounts. JMB finished No. 8 in 1986, with $261 million.

JMB raised $1.5 billion for the purchase of Cadillac Fairview and Copley raised $500 million in separate accounts from two clients for the portion of the Cadillac Fairview portfolio that JMB did not buy (*P&I Age*, Sept. 21).

The Cadillac Fairview deal underscores institutional investor interest in retail real estate during 1987. JMB's acquisition included 31.55 million square feet of existing and planned retail space.

JMB reported 44 new clients in 1987, the most reported of all the real estate managers, followed by Copley, with 37.

With the top 10 managers got the lion's share of new commitments to real estate, investors apparently are placing their assets with a select group of managers.

Paul Saylor, principal in Institutional Property Consultants Inc., Atlanta, and William Ramseyer, president of Pension Realty Advisors, San Francisco, both said the trend will continue, although the managers with the most money

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Milwaukee building purchased

A joint venture of the $44 billion California Public Employees' Retirement System, Sacramento; the $15.6 billion State of Wisconsin Investment Board, Madison; Equitable Real Estate Management Inc., New York, and developer Trammell Crow Co., Dallas, paid $195 million cash to First Wisconsin National Bank of Milwaukee for the First Wisconsin Center, a 42-story retail, office and parking garage complex in Milwaukee. Equitable arranged the deal. The site has 1.2 million square feet of rentable space and includes adjoining land that makes it suitable for further development.

Buying spree set for PRISA

Strategy: Economic diversification

By John Covaleski

NEWARK, N.J. — The Prudential Realty Group, Newark, N.J., is launching a new investing strategy for its $3.884 billion Prudential Property Investment Separate Account open-end real estate fund, which lost a net $878 million in client investments for the year ended Sept. 30.

PRISA, which acquired no property in 1987, will buy between $750 million and $1.2 billion in properties over three years to help implement the strategy. Sales of properties already owned by PRISA will help pay for the acquisitions.

The strategy includes a new methodology for determining how to diversify the portfolio's holdings, based more on the economic characteristics of markets, than on geography.

Prudential officials are meeting with clients to discuss the strategy.

Clients seemed heartened by PRISA's approach. "I like diversifying by economic criteria rather than just geography; the economy drives real estate, not geography," said Allan Steinkamp, vice president of Fiduciary Trust International, which manages the investments of the $7 billion United Nations Staff Joint Staff Pension Fund, New York.

Mr. Steinkamp said he had been "disappointed" in the returns from PRISA. The U.N. fund has about $100 million invested in PRISA.

"I'm not saying we'll put more money in PRISA, but I will be looking at this new

Continued on page 16

Under the new strategy, managers of Prudential's Property Investment Separate Account will buy more retail properties such as the Winrock Mall in Albuquerque, N.M., which already is part of PRISA's holdings.

WRAP-UP

Tokyo rents still high

NEW YORK — In contrast to Tokyo and London, office costs in New York are comparatively inexpensive, according to the latest survey of world office rental levels by Richard Ellis Inc., New York.

The semiannual survey compares total costs — rent, common area maintenance, taxes and operating expenses — in 21 major office markets.

Tokyo tops the list at $154 per square foot in total occupation costs, followed by London (city), $138; London (West End), $99; and midtown Manhattan, $62.50.

Costs in Tokyo have stabilized in the past six months, according to the Ellis report, while London rents continue to rise, fueled by demand for office space after the deregulation of the United Kingdom's financial markets.

On the auction block

CHICAGO — Real estate auctions conducted by Sheldon Good & Co., Chicago, generated sales of $43.2 million during a three-month period, according to Gordon J. Greene, president of Real Estate Auctions Inc., a Good subsidiary.

The nine auctions in 10 cities included the sale of 300 commercial, industrial and residential properties. Auctions in Dallas and Houston sold $8.64 million properties.

Buying spree

Continued from page 15

strategy," he said.

Albert W. Kirschbaum, investment manager of the $1.3 billion pension fund of Bechtel Power Corp., San Francisco, an investor in PRISA since 1980, said the strategy is an "important step" in the evolution of real estate investing.

PRISA's total return for the year ended Sept. 30 was 5.22%, according to PRISA's annual report. That trailed the FRC Property Index's return of 5.5%. The number of investors in PRISA during that period dropped to 257 from 297; withdrawals totaled $922 million for the same period; new deposits, $43.6 million.

The new strategy is not a reaction to the withdrawals, said Charles R. Lightner, vice president and senior portfolio manager of Prudential Realty. Instead, he said, its aim is to make PRISA more able "to provide diversification at a risk level suitable to clients."

The traditional method of geographic diversification, in which the country is divided into four regions and acquisition decisions are based on spreading portfolio holdings over those regions, is "naive," he said.

David G. Shulman, a vice president in real estate research for Salomon Brothers Inc., New York, which assisted Prudential with its strategy, said, "This brings more coherence to real estate diversification." The four qadrant approach is too broad to make use of economic factors, he said.

Consultants' reaction to the Prudential strategy was mixed.

Ronald A. Karp, president of Ronald A. Karp Associates, Summit, N.J., called it "much ado about nothing." He said local market economics always have been considered by managers in making acquisitions.

Barbara Cambon, principal in the San Diego office of Institutional Property Consultants Inc., said investors look at local economic factors but don't usually compare the local factors of several different markets in determining an overall portfolio. She likened the Prudential strategy to a "top-down" approach used by equity managers in selecting stocks, and said real estate's traditional approach is more "bottom-up."

"Prudential's been able to quantify the relationships of economics and geography. That's an important step forward," Ms. Cambon said.

Mike Young, a manager with Pension Realty Advisors Inc., San Francisco, said Prudential's more-detailed approach should be a vast improvement over the "never really appropriate" four quadrant style.

But Mr. Young and others said Prudential executives could have difficulty finding $1.2 billion worth of institutional-quality real estate to acquire in three years.

Where PRISA will buy and sell hasn't been determined.

PRISA's new criteria will be the role of a market in the overall economy; the market's dominant employment characteristics; and how employment growth is affected by national business cycles, such as a recession.

Subcategories for the first criteria include whether the activities within the market have a national, regional or subregional effect; or whether the market's driving force is dominated by the government, such as a state capital or city with military installations.

Dominant employment characteristics include whether the market is dependent on one industry or one type of work force.

Under the new approach, PRISA will avoid heavy investments in markets sharing the same economic criteria. Investing in Los Angeles and New York would provide geographic diversification, but wouldn't meet the diversification criteria of the effect on an economy as both cities have national effect.

Mr. Lightner said this strategy could have spared the recent crisis in which some managers found themselves overweighted in properties in oil-dependent markets. Real estate money managers could have invested in the Southwest to get geographic diversification, but might not have considered that all were oil industry dependent, meaning they all suffered when that industry plunged.

The criteria in the Prudential model would have called for investing the Southwest, but would have discriminated against placing too many investments in one-industry markets.

The PRISA strategy also calls for change in the mix of property types over three years. The emphasis will shift to apartment, retail and industrial property and away from offices.

Offices as a percentage of total holdings will go to about 40% from 49.9% as of Sept. 30; apartments will go to about 10% from about 5.5%; retail will go to 20% from 16%; industrial to 20% from 17% and hotels/motels to 10% from 9.2%. The existing and revised allocation also has 2.4% in land and agriculture. ■

Up 52.6%

Continued from page 15

might have too much to make the optimum investments for their clients.

"There's too much loot in too few hands," said Mr. Saylor.

Jack Phillips, managing director of Copley, said it is conceivable managers taking in substantial contributions could compete against themselves.

Ms. Farmer said managers can offset this by refusing to accept new clients if "their plate is too full." She said in 1987 JMB answered far fewer requests for separate account business than it received.

This year's Scorecard also showed continuing investor preference for specialized real estate managers over insurance companies, which once dominated the real estate investment industry.

Equitable Real Estate Investment Management, Atlanta, a subsidiary of Equitable Life Assurance Society of the United States, was the only insurance company affiliate to make the top 10. Equitable reported $991 million in contributions (all fully invested), ranking it fourth, up from $814 million it reported in 1986.

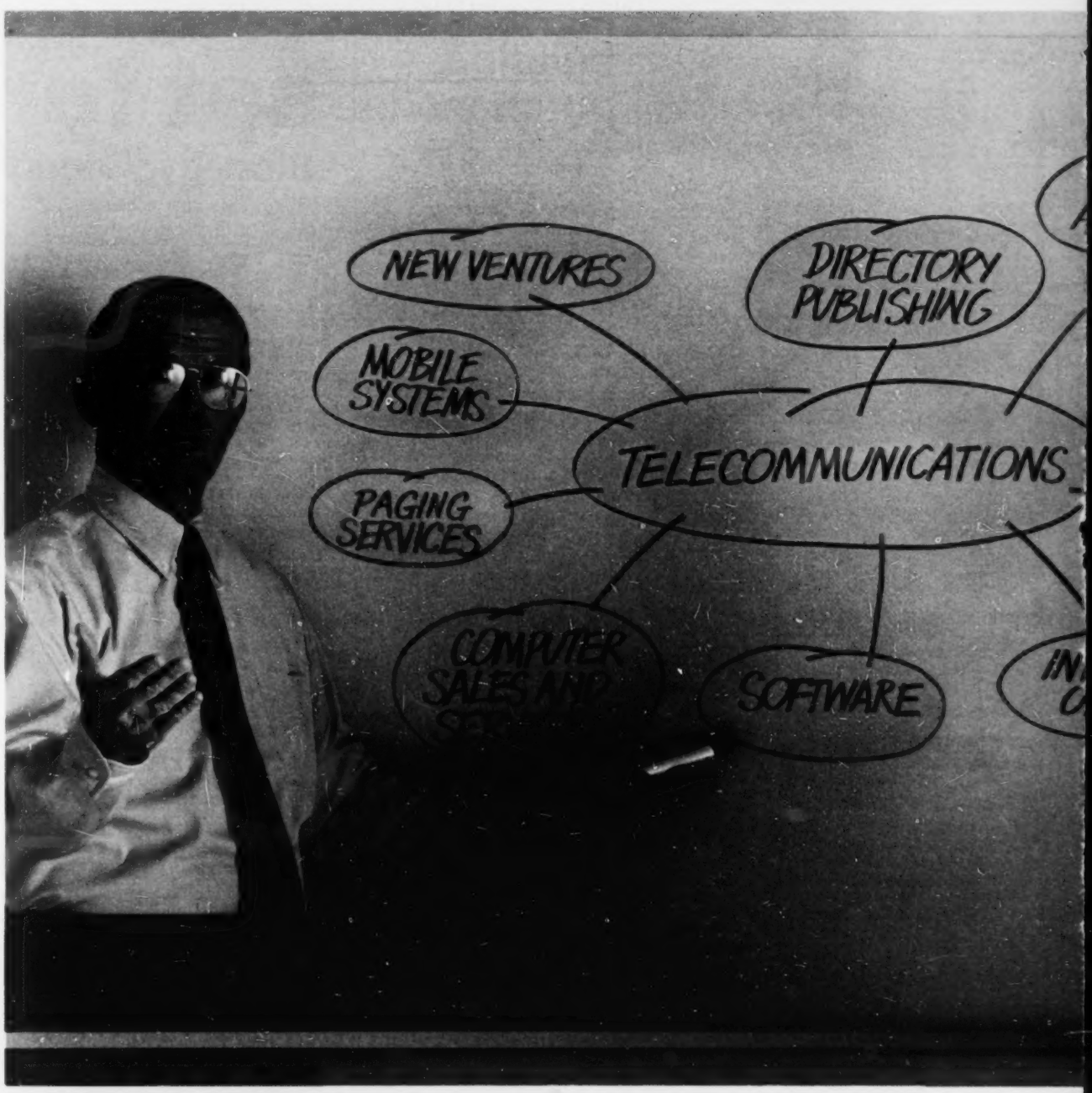
Aetna Life Insurance Co., Hartford, Conn., ranked 11th with $316 million in net assets; in 1986 it ranked third with $511 million.

Aetna; J.W. O'Connor & Co., New York; and Eastdil Realty Inc., New York, which did not answer the 1987 report, were the only managers that didn't repeat in 1987.

J.W. O'Connor reported raising no new money. Nancy I. Lashine, vice president, said the company intentionally held back on fund raising until its retail trust was fully invested.

New to the top 10 in 1987 are: LaSalle Advisors Inc., Chicago, which placed sixth with $618 million; Boston Co. Real Estate Counsel Inc., Boston, No. 8, $478 million; and RREEF, No. 10, $316 million. ■

BellSouth



INTERNATIONAL

Foreign bonds rise to top

By Marlene Givant

The popularity of foreign bonds stole the show in attracting new business during the 11 months ended Dec. 1, according to the *Pensions & Investment Age* Scorecard of investment managers' new business.

Active managers for the first time attracted substantial international fixed-income business in 1987. In fact, during the first six months of the year, U.S. tax-exempt funds committed at least $1.472 billion to the area largely in order to diversify domestic fixed income (*P&I Age*, Sept. 21).

Last year's show stopper, international stock index funds, leveled off in the 11 months but maintained its momentum, with index leader State Street Bank & Trust Co., Boston, alone gaining the most international new business in terms of assets with $1.31 billion.

State Street wooed assets from more new clients for its international stock index funds than the two top active international managers combined during the period.

The phenomenon parallels the domestic boom in indexation, but with one firm enjoying the vast majority of the new business.

But some observers think growth of international passive management will slow. "People are continuing to be convinced of the value of active management. Passive management has reached as far into people's portfolios as it's likely to go," said Chris Carter, a director of WorldInvest Ltd., London, an active manager.

The survey polled international and global equity and bond managers on new business including contributions from new U.S. tax-exempt clients and additional contributions from existing clients during the period. The figures did not include market appreciation, dividends and interest.

Most new international/global business

Firm	Total	Equity	Fixed
State Street Bank & Trust	1,310	1,310	0
WorldInvest*	779	379	400
Posthorn Global Asset	395	215	180
Baring Int'l Investment	389	226	163
Warburg Investment Mgmt. Int'l	242	177	65
Morgan Grenfell Investment	228	228	0
PCM Int'l	218	−5	223
Oechsle Int'l Advisors	211	211	0
Schroder Capital Mgmt. Int'l	200	200	0
Wells Fargo Investment	195	195	0

* As of December 31

State Street, which managed $23.8 billion in total U.S. tax-exempt assets as of Dec. 31, led the growth for the second year in a row and gained nine new clients.

"It (fixed income) went from a product people weren't terribly interested in to one that came into its own in 1987. This was as much true for us as for the industry," said John F. McNamara, director of Baring International Investment Ltd., London, which manages $163 million in fixed income.

The growth and diversity of international investments has accelerated since 1986; for the 11 months ended Dec. 1, new international/global business totaled $7 billion, almost all in equities. The amount surpassed last year's gain of about $4.9 billion.

The top three active managers for new business were WorldInvest, formerly BA Investment Management International Ltd., with a healthy $779 million gain as of Dec. 31 — $379 million in equities and $400 million in fixed income — and 14 clients; Posthorn Global Asset Management, formerly American Express Asset Management, New York, with $395 million, and nine new clients; and Baring, with $389 million and seven new clients. The firms managed $1.535 billion, $590 million and $1.472 billion, respectively, as of Dec. 31.

The majority of WorldInvest's 1987 new business was fixed income, accounting for $400 million of the firm's $725 million gain.

Similarly, fixed income comprised $180 million of Posthorn's and $163 million of Baring's increases.

Rounding out the Top 10, in descending order, were Warburg Investment Management International Ltd., London, with a gain of $242 million; Morgan Grenfell Investment

Continued on page 22

"In the Hollow of the Great Wave of Kanagawa," from "The Thirty-Six Views of Fuji" by Hokusai, sold for more than $1 million — almost double what British Rail expected to receive.

Print auction brings bonus

By Holly Smith

LONDON — The $10 billion British Rail pension fund has found beauty truly is in the eyes of the holder.

In its third major sale of artwork from a $67 million art portfolio, the fund raked in $2.5 million for Japanese prints that Sotheby's auctioneers had expected to bring in between $1.4 million to $1.7 million.

In fact, bidding reached record-breaking levels for some of the works of art. A record for a single Japanese print was set when a picture of a tea shop waitress sold for $390,000. And an album of 41 prints by Hokusai, which included "Thirty-Six Views of Fuji," was expected to fetch $566,000 but sold for more than $1 million. "One of these views, 'The Great Wave of Kanagawa' . . . had become virtually synonymous in the West with the idea of the Japanese print," a Sotheby's spokesman said.

Not surprisingly, given the strong yen and the subject matter, Asian buyers were represented heavily at the sale. The Hokusai album of prints was sold to International Fine Art Consultants Ltd., Hong Kong. The same firm also paid $175,000 for a print by Utamaro called "Making-Up After a Bath." Another buyer was Seibu Department Stores Ltd., Tokyo.

The sale is part of a planned liquidation of the art portfolio, whose book value is $67 million; fund officials declined to reveal the market value. Liquidation might take as long as 10 years, said David Andrew, company secretary of the British Rail Pension Trustee Co. Ltd., London.

The sales began in earnest with the sale of old master prints for a total of $3.3 million last June, although smaller sales had happened before then (*Pensions & Investment Age*, June 15).

In November, the fund sold 27 silver items it had held for 11 years for a total of $1.8 million, which constituted a return of 3% per year. No further sales are ex-

Continued on page 22

Takeover dispute

Stock purchase fuels talk of regulation

By Milton Smith

SOUTH YORKSHIRE, England — Use of pension funds in fighting hostile takeover bids might lead to further regulation in the United Kingdom of plan investments in their sponsoring companies.

The purchase last month of 100,000 shares of MS International PLC, South Yorkshire, by the company's pension fund just days before a $45 million hostile takeover bid by Dobson Park Industries PLC, Lancashire, has brought the issue to a head.

The U.K. issue mirrors that raised in the United States in the early and mid-1980s, when some corporate pension funds purchased large blocks of their sponsoring companies' stocks to avert takeover attempts. In the most notable of these cases, U.S. courts ruled Grumman Corp.'s pension fund trustees violated their fiduciary duty by purchasing company stock at a premium when the company faced an ultimately unsuccessful bid by The LTV Corp. (*Pensions & Investment Age*, March 5, 1984).

Dobson Park, a mining equipment and industrial electronics group, launched its bid Jan. 12 for MS, which makes defense and mining equipment. Michael Bell, chairman and chief executive of MS, who owns about 5% of the company's stock, insists management is determined to stay independent.

But one of the most controversial aspects of the bid is the Jan. 8 purchase of MS shares by the company's pension fund. The fund's stake already exceeded the U.K.'s statutory 5% disclosure level, and thus was required to announce details of the purchase just before the bid.

In a statement to the stock market on Jan. 18, the MS fund confirmed it had lifted its holding to 6.08% from 5.69%. The shares are understood to have been purchased through Phillips & Drew at $1.33 a share, or about 16 cents above the value of MS at the beginning of January. But MS shares subsequently rose to $1.96 after the bid was launched.

Holdings by the fund, Mr. Bell and Bell family interests comprise about 20% of the company's stock.

Hill Samuel, the merchant bank advising Dobson Park, might ask the London Stock Exchange to investigate the purchase of MS shares by the pension fund, sources said, although that might be a tactical maneuver.

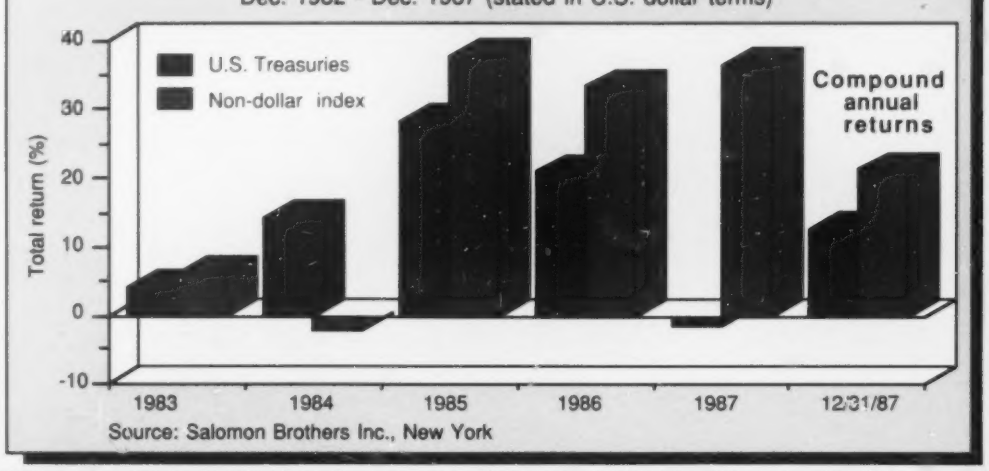
The MS affair only strengthens the voice of those who argue such investments should be subject to stricter regulatory controls, either through voluntary guidelines issued by the National Association of Pension Funds or through legislative changes.

Current law requires a pension fund whose investment in its sponsoring company's outstanding stock hits 10% to notify the Superannuation Fund's Office —

Continued on page 22

U.S. Treasuries and non-dollar government bond returns

Dec. 1982 - Dec. 1987 (stated in U.S. dollar terms)



Source: Salomon Brothers Inc., New York

Foreign bond

Continued from page 20
Services, London, with $228 million; PCM International, Newark, N.J., with $218 million, all in fixed income; Oechsle International Advisors, Boston, with $211 million; Schroder Capital Management International, New York, with $200 million; and Wells Fargo Investment Advisors, San Francisco — the only other passive manager to break into the Top 10 — with $195 million.

While few of the top active managers beat the Morgan Stanley Capital International Europe Australia Far East index over the one-, three- or five-year periods ended Dec. 31, they still posted strong gains.

WorldInvest, which returned 5.42% in 1987, sparkled over longer periods, returning a compound annualized 49.8% for the three years and an annualized 30.68% for five in international equities. This compares with the EAFE's 25.2%, 49.4% and 35.1%, respectively.

The firm's international bonds returned 34.95% for one year, a compound annualized 37.67% for three years and 20.75% for five years. The Salomon Brothers Non-U.S. Government Bond index returned 35.15% for the year and 33.83% for three years in U.S. dollar terms. The index does not have five-year figures.

WorldInvest's new clients included GTE Corp., The Kroger Co., Harvard University, National Starch & Chemical Corp., Pan American World Airways Inc., Pechiney Corp.; Trans World Airlines Inc.; and McKinsey & Co. Inc.

Posthorn returned 2% for the 12 months and a compound annualized 45.54% for the three years in international equities. It had no five-year equity figures.

In international fixed income for the year it returned 35.3%; Posthorn has no longer-term international fixed figures. But for global fixed income, it returned 24.66% for one year and a compound annualized 25.7% for three years. Again, it had no five-year figures. In comparison, the Salomon Brothers World Government bond index returned 18.41% for one year and an annualized 22.85% for three.

Posthorn's new clients include Lone Star Industries Inc., American Telephone & Telegraph Co. and Pacific Gas and Electric Co.

Baring's international equity accounts returned 16.1% for one year, a compound annualized 43% for three years and 30% for five years. Its international bond return was 35.3% for the one-year period, it was the first year in bond management.

Kaiser Aluminum & Chemical Corp., Atlantic Richfield Co. and BP America were among Baring's new clients.

Morgan Grenfell's foreign equity accounts earned 12.4% in 1987, an annualized 42.1% in the three years ended Dec. 31 and 28.4% for the five years. Its international fixed-income returns were 38.4%, 35.2% and 20.2% for those periods, respectively.

Warburg's international equity composite rose 11.2% for one year, an annualized 43.7% for three years and 30.1% for five.

Global fixed income was up 22.9% in 1987 and an annualized 29.6% for the two years ended Dec. 31, the longest period available. International fixed income rose 35.5% in 1987. ■

Prints

Continued from page 20
pected this year, and later sales will be stretched "over a period of years," said Mr. Andrew.

He said the Japanese art had been purchased 10 years ago for roughly 400,000 pounds ($700,000 then).

The artwork was bought when the United Kingdom had exchange controls that prevented investment abroad and when the stock market was very weak. Also, some of today's desirable investments, such as index-linked gilts (government bonds that are tied to inflation) hadn't yet been invented.

The results of the sale meant the prints had brought an annual return of 12% — or 3% above the inflation rate.

"We didn't lose money by this," Mr. Andrew said of assembling the print collection. He said the appreciation obviously did not match what the stock market had risen to before October, but the investment outperformed fixed-interest instruments.

"We're not disappointed, it hasn't proved to be a disaster — it has given us a real return."

The fund is still waiting to see if it will face any taxes on the profits from the sales. "It's a gray area," said Mr. Andrew. ■

Takeover

Continued from page 20
the industry group that regulates pension funds — and receive authorization before purchasing additional shares.

The Inland Revenue — the equivalent of the U.S. Internal Revenue Service — is said to be scrutinizing the matter, but has not yet issued any statements.

The investment committee of the NAPF has responded to criticism of pension funds investing in their sponsor companies — particularly in takeover situations — by setting up a special group on the subject. It also is polling its pension fund membership to ascertain their views.

The association's findings are expected to be ready for its annual investment conference this month and it is rumored the organization might come out in favor of tighter controls.

The association's inquiry was triggered in part by another case — that of Bryant Holdings PLC, a West Midlands-based housebuilder. Its pension fund bought a 1.27% stake in Bryant when the company was the target of an unwelcome — and unsuccessful — bid from English China Clays PLC, Cornwall. ■

On the move

Continued from page 21
marketing and client services with Fred Alger Management Inc., New York, has joined Simms Capital Management, New York, as a director of marketing.

She will concentrate on attracting U.S. pension fund business to the global manager, which runs $400 million, mostly for individuals.

Ms. Woodall said she joined Simms Capital Management for the promise of the firm and its area of expertise.

"The most important reason is that it is an uncommon group of investment professionals," Ms. Woodall said.

"Also, the majority of pension fund demand and the growth area over the foreseeable future will be the international and global arena," she said.

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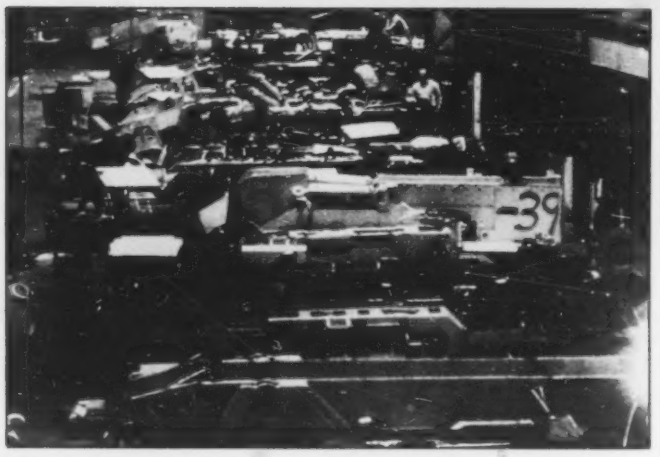

Things are looking better for Joy Technologies. Increased sales and reduced debt are easing the fears of investors worried about performance since the leveraged buy-out last year.

LBO success moves closer

Joy Technologies nearing goal

By Brad Rudin

PITTSBURGH — Joy Technologies Inc., a precariously financed leveraged buy-out, has cleared one hurdle by selling assets and reducing debt, and increased its chances of becoming a textbook success story.

The company also increased its credibility by posting strong quarterly results, although skeptics about its long-term prospects still exist.

Having reduced the debt burden to more manageable levels by using the proceeds from the sale of assets, Joy faces the steadier work of wringing enough out of the remaining business units to meet post-leveraged buy-out interest expense and principal repayment obligations.

Joy's yield spread — like that of other high-yield companies — widened substantially after the Oct. 19 stock market fall. But the spread tightened last month after the company released its fiscal 1988 third-quarter report for the period ended Nov. 27.

The company's debentures recently traded at $93.50, up sharply from the $85 in December.

The third-quarter report eased investors' concerns about the company by noting increased sales and reduced debt.

'Joy's recently announced third-quarter results were encouraging: operating cash flows were 21% above the second quarter," according to the Jan. 18 Research Review, published by Donaldson, Lufkin & Jenrette Securities Corp., New York.

"Joy Technologies continues to improve its post-LBO performance," according to the Jan. 14 High Yield Sector Report, published by Kidder, Peabody & Co. Inc., New York. "Over the last two quarters, the company has increased its cash flow through significant margin improvements and has reduced debt through asset sales."

The company sustained a net loss of $4 million, negative $4.54 a share, on revenue of $135.1 million in the third quarter. Current operating results are not comparable to the same period last year because of the effects of purchase accounting and differences in the debt structure of the company for the current period, Joy said in its third-quarter 10-Q report.

Joy Technologies completed a $621 million leveraged buy-out of Joy Manufacturing Co. in February 1987, a transaction that left the successor company with a pro forma debt-to-capitalization ratio of 92% and the need to sell assets without too much delay.

Joy Manufacturing accepted the

Continued on page 24

Tiffany's luster, glitter returning

By Marcia Parker

NEW YORK — Tiffany & Co., the internationally renowned retailer of jewelry and luxury gifts that went public less than a year ago, has shaped up financially and embarked upon an aggressive drive to make its prestigious products available throughout America and the world.

A lackluster performer when it was owned by Avon Products Inc., New York, and a money loser for two years after it was taken private in 1984 by William R. Chaney and a management and investor group, Tiffany's has turned around. The company has stemmed the losses that marred its high-class image and temporarily soured some Wall Street analysts on the 150-year-old retailer of high-priced jewelry, silverware, china, crystal and other glamorous merchandise.

Today, the black ink is flowing, sales and earnings are strong, an aggressive growth strategy is in place, business is expanding worldwide, a host of new products have been well received, the balance sheet is stronger and analysts are recommending Tiffany's stock.

"Our purchase recommendation of Tiffany's stock reflects the uniqueness of the company's name, a talented management team, the integration of sophisticated systems, the growth potential of products and distribution channels, and successful participation in meeting the needs of the rapidly growing affluent customer base," said Stacy Ruchlamer, who follows the company for Shearson Lehman Brothers Inc. Shearson co-managed Tiffany's initial public offering with Goldman, Sachs & Co.

Tiffany's is a good example of how a buy-out often provides skilled managers-turned-owners with a chance to improve a division that was performing poorly as part of a large diversified corporation. As was the case with Tiffany's, the payoff eventually comes when the private company comes full circle by going public and investors recognize its strengths.

"After achieving very strong results through the first three quarters of 1987 and in our Christmas season, we remain optimistic as we enter 1988," said Mr. Chaney, Tiffany's chairman, whom analysts credit along with his management team for the turnaround.

"We expect to aggressively pursue our diversified growth strategies. These include expansion within our three channels of distribution through retail activities in the U.S., Europe and Japan, along with further market penetration in our direct-marketing business, both in sales to corporations and through our catalogues," he said. "Our growth strategy also calls for expanded selections of our product offerings. Of course we continue to monitor changes in the economy but are confident because of the strong appeal of Tiffany to our clientele."

For the first nine months of the year ended Oct. 31, Tiffany's net earnings were $6.5 million, vs. a loss of $108,000 in 1986. Sales rose 29% to $148.2 million, with U.S. retail sales up 26% and international sales up 75%. Unlike many companies, Tiffany's saw

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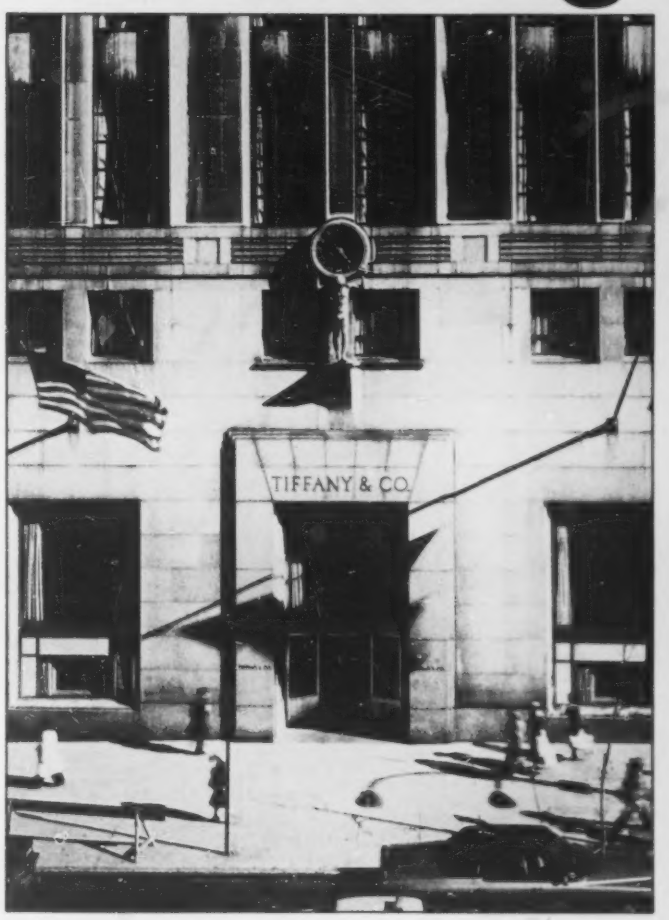

The glamorous Tiffany's is financially gleaming again — earnings are booming, sales are strong and an aggressive growth strategy is regaining the confidence of analysts and investors.

Corporate credit quality improving

1987 credit rating changes

	1987		1986	
	Up	Down	Up	Down
Duff & Phelps	62	81	64	91
Fitch Investors Service	38	51	42	43
McCarthy, Crisanti & Maffei*	30	47	47	73
Moody's Investors Service	100	176	143	246
Standard & Poor's**	187	285	149	364

The numbers for Moody's reflect the number of issues affected by rating changes, while the data for the other rating agencies reflect the number of rating actions.

* At the end of 1986, MCM stopped rating below-investment-grade industrials
**Preliminary figures

Source: The rating agencies

By Brad Rudin

NEW YORK — Although downgrades still outnumbered upgrades, the credit quality of U.S. corporations improved in 1987 as the number of downgrades fell sharply and upgrades as a percentage of total actions increased.

But weak business conditions in a broad spectrum of industries will keep downward pressure on credit quality in 1988, Moody's Investors Service and Standard & Poor's Corp. reported.

At Standard & Poor's, preliminary numbers show upgrades accounted for 40% of the agency's rating actions in 1987 compared with 29% in 1986. Improvements in credit quality also could be seen in data from by Duff & Phelps Inc., with upgrades comprising 43% of that firm's actions in 1987 vs. 41% in 1986.

Moody's released data showing 36% of issuers it covered received a higher rating in 1987, compared with 37% in 1986.

Upgrades as a percentage of rating actions by McCarthy, Crisanti & Maffei Inc. remained steady at 39%; the number dipped at Fitch Investors Service to 43% in 1987 from 49%.

Utilities and financial institutions bucked the improving trend found in other sectors of the economy, Standard & Poor's reported. Some utility companies experienced regulatory and construction difficulties in 1987 while the industry as a whole confronted competitive pressures.

Bank credit quality remains vulnerable because of problem loans, and securities firms are challenged by the need to cut costs, according to S&P.

Special events — leveraged buy-outs, mergers or acquisitions, recapitalization and litigation — played a significant part in the

Continued on page 24

LBO success

Continued from page 23

$35-a-share bid from a group led by Adler & Shaykin, a New York investment firm, after rejecting an unsolicited $31-a-share offer from The Pullman-Peabody Co.

Joy merged with Ecolaire Prime Inc. — a producer of ash removal systems — in an $19.8 million transaction completed last June.

Joy Technologies is a leading producer of underground mining machinery and also makes industrial air pollution equipment, ash handling systems for power plants, heavy duty elements of combustion systems and software for plant automation.

"I think overall we are pleased with where operations are today," said Eugene J. O'Sullivan, vice president and treasurer. "What we'd like to see is stronger performance on the part of the non-coal business; that's where the upside of the company's business is."

If Joy succeeds, the company will have defied the doubts of credit-rating analysts and established itself as a textbook example of a leveraged buy-out that survived Oct. 19, difficult fundamentals and a mountain of debt.

Although high-yield bond analysts at Kidder, Peabody and Donaldson, Lufkin & Jenrette gave Joy good marks after the company reported its third-quarter earnings, analysts at Moody's Investors Service and Standard & Poor's Corp. were less optimistic.

Last spring, Moody's gave a B1 rating to Joy's 13¾% senior subordinated debentures due 1999, while Standard & Poor's assigned a B– rating to those securities.

"Can their operations generate enough earnings? That's the tough thing to see," said Daniel R. DiSenso, an analyst at Standard & Poor's.

"They are not out of the woods yet," said John B. Morris Jr., a Moody's analyst. "They always have their back against the wall."

Still, the analysts saw some bright spots: solid management; stable fundamentals; lower interest expense; and Joy's leading position in the mining equipment manufacturing business.

Much of the good news comes from asset sales, which helped chop third-quarter fiscal 1988 debt to $458 million from $674 million.

A capture of between $40 million and $50 million of surplus pension assets expected in midyear should enable Joy to make another big dent in its shrinking debt load. That reversion, however, is the subject of a federal lawsuit by former employees. One of the claims in the suit, filed in December, is that plan participants and beneficiaries should receive assets for funded but not accrued benefits, before the company receives any assets, according to the 10-Q report.

The good news for Joy is the timing of the asset sales, which provided the basis of the leveraged buy-out. "Fortunately, Joy had agreements for its asset sales before the (Oct. 19) stock market crash and was not affected by declining asset values," noted the Kidder, Peabody report.

Third-quarter earnings before interest, taxes, depreciation and amortization were $18 million compared to pro forma second quarter EBITD of $16.2 million.

Cash flow from operations would be insufficient to meet the company's debt service requirements coming due before June 30, 1989, Joy acknowledged in June 1987 when it sold high-yield securities to pay down short-term debt associated with the buy-out.

Kidder, which co-managed the $185 million debt offering for which DLJ was lead manager, predicts the interest coverage ratio will be a "solid" 1.32 times interest expense for fiscal 1988. Joy will have an interest coverage ratio of 1.23 times for fiscal 1989, according to a projection in Kidder's Jan. 14 report.

"Coverage ratios were surprisingly good at 1X (one times) interest for the third quarter," according to the report published by Donaldson, Lufkin & Jenrette. Kidder put the coverage ratio for the company's third quarter of fiscal 1988 at 0.95 times interest.

Interest expense dropped $1.6 million to $18.9 million in the third quarter from $20.5 million (pro forma) in the second quarter, a decline that could have been bigger were it not for the timing of Joy's debt reduction, according to Kidder's report. Fourth-quarter interest expense should be pushed down to $15.5 million, Kidder predicted.

Joy improved its EBITD-to-revenue ratio to 13.4% in the third quarter from 12.6% and 6.5% the two previous quarters, both of which were calculated on a pro forma basis. Kidder projects a ratio of 13.5% in fiscal year 1988 and 14% in fiscal year 1989.

Asset sales and other actions will produce $312 million for the company, according to Joy's third-quarter 10-Q report, which noted $239 million of that already had been received. ■

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Corporate

Continued from page 23

deterioration of credit quality in the financial services sector for the first time, Moody's reported in the Jan. 18 issue of its Bond Survey. The agency cited Chemical Bank's acquisition of Texas American Bancshares and Transamerica Corp.'s purchase of Borg-Warner Acceptance Corp. as examples of restructurings that led to credit downgrades.

Moody's noted a broadening of the ranks of "fallen angels," companies whose ratings slipped below investment grade. Much of the decline in 1987 came from the restructuring of industrial companies, the agency reported, noting deteriorating fundamentals affected a smaller amount of the downgraded debt.

But Moody's also noted substantial improvements in the industrial sector. Last year's 'reborn angels' typified a positive undercurrent for U.S. industrials during 1987, as upgrades in that sector rose to their highest levels since the early 1980s. Moody's attributed the uptick in industrial credit quality to cost efficiencies and improvements in capital structure.

Moody's and Standard & Poor's offered cautious predictions about credit quality in 1988.

Downward rating pressure in 1988 would be felt by money center banks, securities firms, automotive companies, retailers, hospitals, oil companies, high-technology companies and some issuers of structured finance offerings, Moody's said. Improving fundamentals will lead to better credit quality for U.S. producers of steel, food and drugs.

Moody's predictions were based on expectations pointing to slow real growth, an uncertain dollar, a continued trade deficit, deterioration in the economies of the less developed debtor nations, deregulation of the financial markets and oil prices in a range between $14 to $17 a barrel. ■

STATISTICALLY SPEAKING

Year closes with contrast

Sectors flip-flop in rankings

By Trudy Ring

KANSAS CITY, Mo. — Stocks sensitive to interest rates were the best performers in the fourth quarter, while basic industry stocks led for 1987, according to DeMarche Associates.

In the bond market, telephone company bonds performed best in the quarter, while Yankee and foreign issues were tops for the year, according to the consulting firm's analysis.

The Standard & Poor's 500 stock index lost 23.4% in price in the quarter, with a gain of just 1.8% for the year. All stock returns are price only.

The basic industry sector was down 24.8% in the quarter, but it was the best of the S&P 500 on the year, gaining 8.4%.

This sector encompasses companies in the automotive, building material, chemical, electrical equipment, metal and transportation industries.

Interest-sensitive stocks lost 19.1% to outperform the market in the quarter; for the year, the sector was the worst performer, down 11.4%. The sector is made up of banks, savings and loans, insurance companies and large gas, electric and telephone utilities.

Energy stocks had the second best return for the quarter, down 21.6%. For the year, the sector gained 5.8%.

This sector comprises domestic and international oil companies and oil service and equipment.

Technology stocks lost 24.1% in the quarter, ranking third, and gained 6.2% for the year, ranking second. This sector covers the aerospace, drug, electronics and office equipment industries.

Stocks related to consumer spending did worst in the quarter, losing 25.5%, while ranking second lowest for the year, with a gain of 1.5%.

Household goods, food and beverage, tobacco, media, textile and retail stocks are in this sector.

The 10 best-performing industries in the quarter were electric utilities, down 7.3%; beverages, down 16.9%; telephone companies, down 17.4%; household products, down 18.3%; steel, down 18.5%; food packaging and processing, down 18.8%; international oil, down 19%; general machinery, down 21.1%; paper, down 21.2%; and forest products, down 21.3%.

The 10 worst-performing industries were oil service and equipment, down 37.6%; airlines, down 34%; building materials, down 31.7%; retailing, down 31.6%; containers, down 31.4%; banks, down 31%; textile products and apparel, down 30.9%; aerospace, down 30.8%; cars and trucks, down 28.2%; and tobacco, down 27.6%.

The top-performing individual stocks of the quarter were **William Wrigley Jr. Co.**, up 11%; **Southern Co.**, up 0.6%; **Comcast Corp.**, unchanged from the previous quarter; **Dominion Resources Inc.**, down 0.9%; **Pennzoil Co.**, down 1.2%; **Computer Associates**, down 1.5%; **Ohio Edison Co.**, down 2.4%; **Computervision Corp.**, down 2.6%; **Southern California Edison Co.**, down 2.8%; and **International Minerals & Chemical Corp.**, down 3.1%.

As rated by quality of the issuing companies, stocks rated as superior had the best performance in the quarter, down 20.5%. For the year, those rated below average gained the most, 5%.

As categorized by growth, stocks with low, stable growth had the best relative performance, down 14.6% in the quarter; and when ranked by yield, high-yielding stocks did best, down 20.2%.

The bond market, as measured by the DeMarche Pension Fund Bond Index of 6,000 issues, had a total return of 5.6% in the quarter, to finish the year up 3.2%.

It had negative returns in the second and third quarters.

Telephone issues were up 7.9% in the quarter to lead all sectors of the market, but they finished last for the year, with a 0.9% return.

Canadian issues were up 7.1% in the quarter, placing second, but next to last for the year, up 1.8%.

Utility bonds returned 7% in the quarter and 2.8% for the year.

Yankee and foreign issues were up 6.3% in the quarter, pushing them to first for the year with 5.6%.

U.S. government bonds gained 5.4% in the quarter and 2.8% on the year, while industrial bonds were up 5.3% for the quarter and 4% for the year.

Financial issues trailed in the fourth quarter with a 4.3% return; for the year, they were up 3.9%.

As ranked by quality, bonds rated AA had the best return in the quarter, with 5.8%; measured by maturity, those with maturities greater than 20 years performed best, gaining 6.9%.

GIC rates drop during quarter

By Fred Williams

Rates on insurance company guaranteed investment contracts declined slightly in the fourth quarter of 1987, and industry sources view 1988 as a year of uncertainty for the GIC business.

"Rates were down a half to a quarter point in the last quarter, spreads over comparable Treasuries were narrow and we expect them to remain tight at least through the first quarter of 1988," said Doreen Belliveau, vice president at Lamberson Knight Securities, a Short Hills, N.J., GIC brokerage.

Until October, many GIC managers and brokers expected rates to continue to increase, said Mark Hanley, senior vice president at Kominz Co., a Playa del Rey, Calif., investment banking firm.

"Until Oct. 19, most people expected rates would continue to go up. On Oct. 5, a three-year top-of-the-market GIC, a $1 million bullet contract, was at 9.28%; on Oct. 12, it was 9.91% and on Oct. 19, it was 9.96%. On Oct. 26, it was down to 9.16%." From that point, rates declined steadily until hitting bottom Nov. 30 at 8.63% and moving back to 8.71% by the end of the year, he said.

David Rubin, senior director at the Beverly Hills, Calif., investment banking firm of Chambers, Dunhill, Rubin & Co., said GIC rates had a "definite and substantial" decrease in the fourth quarter and "several (insurance) companies were not participating in the traditional year-end bidding because of the stock market crash."

Some GIC managers expect the market to contract in 1988 and look for GIC capacity pressures to build.

"My real concern is looking forward into 1988. Given the overriding conservatism of the insurance companies, supply problems and a volume increase with people moving to GICs, I think things will tighten even more and we could have a real capacity problem by the fourth quarter of 1988," said Mike Hoover, GIC portfolio manager at Capitoline Investment Services Inc., Richmond, Va.

"A lot depends on how the economy goes and the type and availability of investments to insurance companies for the GIC proceeds.

"In terms of 1988 market characteristics, the traditional mainline (insurance) carrier, the stronger carriers, are very conservative in terms of their pricing now. Some smaller or newer carriers may have spreads which are much higher than the comparable Treasuries. That situation creates a greater need to understand what's going on with that group. . . . If a company is offering 50 to 75 basis points above everyone else, that should cause you to look a lot more carefully at their ability to underwrite and invest. They could be shaving their risk charges or using junk paper."

The effects of the equity market crash could linger in the GIC market, said Gene Gochenour, president of GIC Inc., Beaverton, Ore.

He said spreads might continue to narrow between GICs and comparable Treasury instruments and investors might quit shopping spreads as much and look for stability with GIC investments from carriers capable of offering lower volatility investments for their fixed-income portfolios.

Lamberson Knight and GIC Inc. provide insurance company rate quotations on representative five-year, single deposit, simple-interest, $1 million GICs as follows:

- Aetna Life & Casualty Co., Hartford, Conn.; Dec. 31, no quote; Sept. 30, 9.41%.
- Allstate Life Insurance Cos., Northbrook, Ill.; no quote; 9.71%.
- American United Life Insurance Co., Indianapolis; 8.7%; 9.34%.
- Bankers Life Assurance Co., Des Moines, Iowa; 8.53%; 9.05%.
- Canada Life Assurance Co., Toronto; no quote; 9.85%.
- CNA Insurance Co., Chicago; 8.54%; 9.44%.
- Confederation Life Insurance Co., Toronto; 9.3%; 9.69%.
- Connecticut Mutual Life Insurance Co., Hartford; 8.56%; 9.56%.
- Crown Life Insurance Co., Toronto; 8.77%; 9.71%.
- General American Life Insurance Co., St. Louis; no quote; no quote.
- Great West Life Assurance Co., Denver; 8.59%; 9.61%.
- Hartford Insurance Group, Hartford, Conn.; 8.85%; 9.76%.
- Home Life Insurance Co., New York; 8.64%; 9.56%.
- John Hancock Mutual Life Insurance Co., Boston; 8.53%; 9.43%.
- Life Insurance Co. of Georgia, Atlanta; 8.95%; 9.4%.
- Life Insurance Co. of Virginia, Richmond; 8.48%; 9.53%.
- Massachusetts Mutual Life Insurance Co., Springfield; 8.62%; 9.64%.
- Minnesota Mutual Life Insurance Co., St. Paul; 9.31%; 9.94%.
- Mutual Benefit Life Insurance Co., Newark, N.J.; 8.75%; 9.7%.
- Mutual of New York, New York; 8.54%; 9.56%.
- New England Mutual Life Insurance Co., Boston; 8.66%; 9.51%.
- New York Life Insurance Co., New York; 8.8%; 9.75%.
- Northwestern National Life Insurance Co., Minneapolis; no quote; 9.65%.
- Ohio National Life Insurance Co., Cincinnati; 9.22%; 9.77%.
- Pacific Mutual Life Insurance Co., Newport Beach, Calif.; 8.48%; 9.46%.
- Pan American Life Insurance Co., New Orleans; 8.89%; 9.74%.
- Penn Mutual Life Insurance Co., Philadelphia; 9.12%; 9.87%.
- Phoenix Mutual Life Insurance Co., Hartford, Conn.; 8.94%; 9.74%.
- Provident Mutual Life Insurance Co., Philadelphia; no quote; 9.46%.
- Provident National Assurance Co., Chattanooga, Tenn.; no quote; 9.57%.
- SAFECO Corp., Seattle; no quote; 9.6%.
- Southwestern Life Insurance Co., Dallas; 8.75%; 10.1%.
- State Mutual of America, Worchester, Mass.; 8.65%; 9.6%.
- Union Central Life Insurance Co., Cincinnati; 8.83%; 9.83%.

William M. Mercer-Meidinger-Hansen Asset Planning, Dallas, also surveys insurance companies for rate quotations but does not identify the companies. A summary of various bullet GICs for December is as follows:

- Three year, $1 million, compound: high, 9.17%; low, 7.76%; average, 8.39%.
- Three-year, $1 million, simple: high, 9%; low, 7.64%; average, 8.36%.
- Five-year, $1 million, compound: high, 9.83%; low, 8.03%; average, 8.99%.
- Five-year, $1 million, simple: high, 9.9%; low, 8.01%; average, 8.95%.
- Seven-year, $1 million, compound: high, 10.08%; low, 8.28%; average, 9.34%.
- Seven-year, $1 million, simple: high, 10.23%; low, 8.55%; average, 9.25%.
- Three-year, $5 million, compound: high, 9.02%; low 7.92%; average, 8.46%.
- Three-year, $5 million, simple: high, 8.91%; low, 7.82%; average, 8.4%.
- Five-year, $5 million, compound: high, 9.86%; low, 8.12%; average, 9.05%.
- Five-year, $5 million, simple: high, 9.93%; low, 8.13%; average, 8.99%.
- Seven-year, $5 million, compound: high, 10.1%; low, 8.64%; average, 9.4%.
- Seven-year, $5 million, simple: high, 10.25%; low, 8.64%; average, 9.27%.

Dietrich & Associates, a GIC brokerage firm in Blue Bell, Pa., provided the following rate spread data between a $1 million five-year, simple interest GIC and the average T-bill of the same maturity for the fourth quarter:

- Oct. 7: GIC, 10.12%; T-bill, 9.35%.
- Nov. 9: GIC, 9.05%; T-bill, 8.33%.
- Dec. 9: GIC, 9.28%; T-bill, 8.59%.

The same information for the first three quarters was:

- March 2: GIC, 8.2%; T-bill, 6.79%.
- June 2: GIC, 9.05%, T-bill, 8.19%.
- Sept. 2: GIC, 9.5%, T-bill, 8.59%.

Pensions & Investment Age welcomes letters to the editor.

All letters should include name, address and, if appropriate, the company of the writer.

P&I Age editors reserve the right to edit any letter for reasons of space or clarity.

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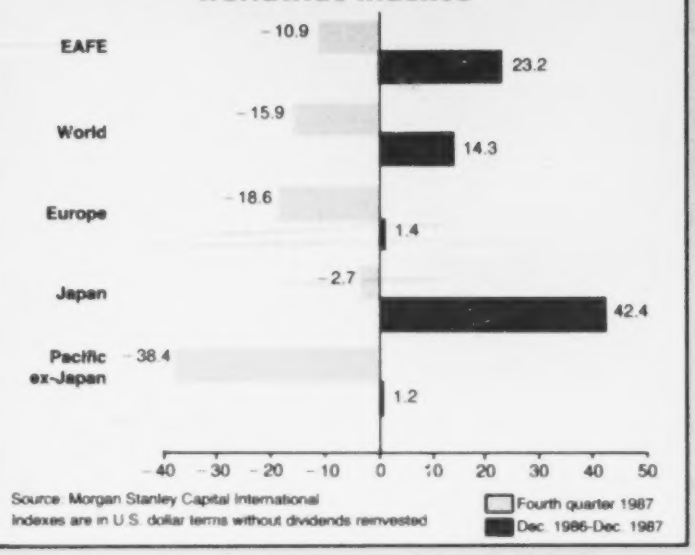
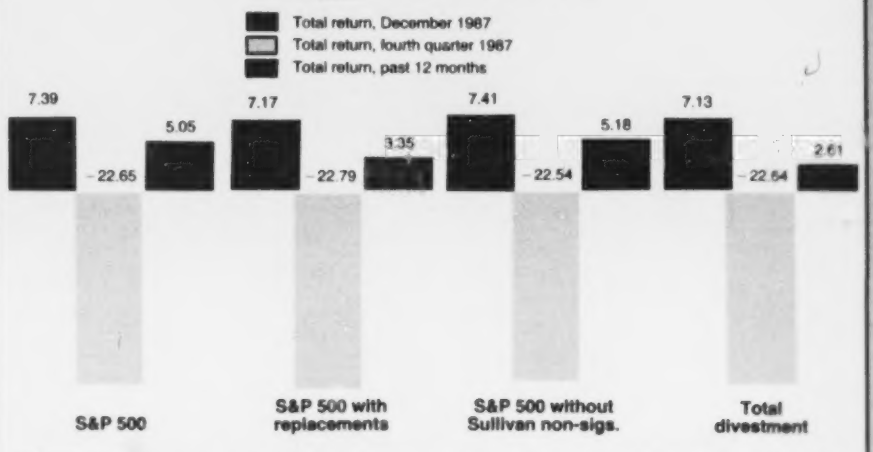
STATISTICALLY SPEAKING

Morgan Stanley Capital International worldwide indexes



Source: Morgan Stanley Capital International
Indexes are in U.S. dollar terms without dividends reinvested

South Africa Free Index



S&P 500 with replacements: replaces a South Africa-related company with next largest company in the industry. **S&P 500 without Sullivan non-signatories:** excludes 20 companies, no replacements. **Total divestment:** eliminates all companies with South Africa involvement, no replacements.

Source: Wilshire Associates, Santa Monica, California

Multiple Markets Index

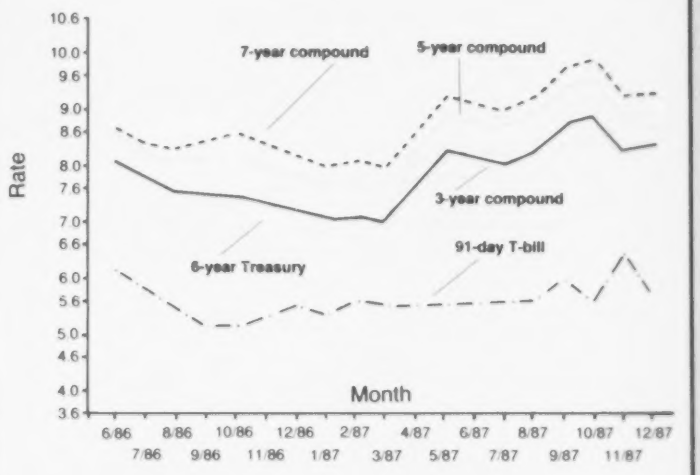
The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of eight asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.

Weights	
Large cap stocks	28%
Small cap stocks	12
International stocks	15
Venture capital	5
Domestic bonds	18
International $ bonds	2
Non-dollar bonds	5
Real estate (equity)	15
T-bills	0
	100%

Five-year annualized return	16.3%
One-year return	9.4%
Latest quarter	-8.4%

Source: First Chicago Investment Advisors, Chicago

Summary of average bullet GIC data vs. market yields ($1 million contract)



Source: William M. Mercer-Meidinger-Hansen Asset Planning Inc., Dallas

Fourth quarter 1987 returns

	Russell 3000®	Russell 1000®	Russell 1000® by market capitalization				Russell 2000®
			Large	Medium/large	Medium	Medium/small	
Technology	-25.6%	-25 %	-24.4%	-25.6%	-23.7%	-28.9%	-31 %
Health care	-23.5	-22.3	-22.3	-21	-19.9	-29.9	-34.7
Consumer discretionary	-27.6	-27	-27.4	-28.3	-25.7	-25.4	-31.2
Consumer staples	-21.2	-21	-22.7	-17.7	-23.3	-19	-25.2
Integrated oils	-19.8	-19.8	-19.9	-17.5	-19.5	-27.9	-19.3
Other energy	-26.2	-25.1	NA	-24	-25.4	-27.1	-33.8
Materials and processing	-22.6	-22.3	-20.4	-22.6	-23.9	-20.8	-25
Producer durables	-23.1	-22.2	-16.5	-23.4	-22.2	-27.2	-29.5
Auto and transportation	-27.3	-27	-23.3	-29.5	-25.7	-30.9	-31
Financial services	-25.5	-25.3	-28.3	-26.9	-23.3	-24.9	-27.5
Utilities	-11.2	-11.1	-15.3	-4.7	-8.5	-11.7	-11.3
Total	-22.8	-22.2	-21.9	-23	-21.8	-23.7	-29.2

Source: Frank Russell Co., Tacoma, Wash.

Bond assets

Continued from page 4
$516 million was indexed. Much of the remainder was in active short-term investment strategies using options or futures, said Carol Kolakowski, manager-marketing support services.

Another of the top 10 with a portion indexed was Mellon Bond Associates, Pittsburgh, which had $165 million of its $1.2 billion in new business indexed.

One of the major active managers among the top 10 large firms was Discount Corp. of New York Advisers, which won nearly $1.6 billion in new bond business. Officials there attributed this to the consistency of their strategy, which shifts maturities based on interest rate anticipation, and continuity of top personnel.

"We do what we say we're going to do," said Barbara Fiorito, vice president and head of marketing. She also noted the firm's two top investment officers — Patricia de Blank Klink, president, and Doug Taylor, senior vice president — have been there since the firm's inception in 1978.

Continuity of top personnel and good returns helped another active firm in the top 10, Fischer, Francis, Trees & Watts Inc., New York, which had $1 billion in new business. Using a various factors to select high-grade bonds, the firm aims to outperform each account's benchmark by at least one percentage point, said John Watts, managing director. "People are increasingly realizing that long-term records of doing that are rare," he said.

Among medium-size managers — those with $250 million to $1 billion in total tax-exempt assets — the top gainer was an indexer, Capstone Asset Management Co., Houston, with $291 million in new bond business, all indexed.

Next was Daniel Breen & Co., Houston, with $225 million. The 4-year-old firm has been known primarily as an equity manager, but is starting to get recognition for its fixed-income management because of performance, said Ed McCullough, senior vice president.

"We have had exceptional performance since the inception of our firm," he said. In the four years ended Dec. 31, the firm's bond accounts had a compound annual return of 15.3%, compared with 13.6% for the Salomon Brothers Broad Investment Grade bond index, he said.

Also, he said, the firm has an easily understandable approach to bonds, focusing on interest rate anticipation and adjusting the portfolio's maturity and duration to match the outlook.

Another firm emphasizing Treasuries was far and away the winner among small firms. Consistent Asset Management Co., Wilmington, Del., founded by a group of former Wilmington Trust Co. professionals, won $150 million in its first full year in business.

Consistent uses quantitative analysis to time the Treasury market, and in doing so has carved itself a niche, said David Umbs, president. It is similar to the approach used when the principals were at Wilmington Trust, but they have come up with some new formulas since they went out on their own, he said. Their track record at the trust company helped bring in business, too, he said. ■

Most new fixed-income business (net)

Top 10 managers over $1 billion

Firm	$ millions
Bankers Trust	3,481
Wells Fargo Investment Advisors	3,287
Putnam Cos.	2,387
Discount Corp. of N.Y.	1,590
State Street Bank and Trust	1,410
Mellon Bond Associates	1,245
Pacific Investment Mgmt.	1,190
Fischer, Francis, Trees & Watts	1,000
Fiduciary Trust Co. Int'l	972
Lincoln Capital Mgmt.	893

Top 10 managers $250 mil. to $1 bil.

Firm	$ millions
Capstone Asset Mgmt.	291
Daniel Breen	225
Wolf, Webb, Burk & Campbell	75
Investment Advisors	72
Marinvest*	65
Chelsea Mgmt.	35
Peters, Gamm & West	25
First Interstate Bank of Arizona	13
Citizens Fidelity Bank & Trust	10
Colorado Capital Advisers	5

* as of Dec. 31

Top 10 managers under $250 million

Firm	$ millions
Consistent Asset Mgmt.	150
Marathon Asset Mgmt.	11
Gateway Investment Advisers	6
Heartland Capital Mgmt.	5
Qualified Counseling	3
First Commerce Investors	2
Glass, Austin & Calvert	2
JMC Capital Mgmt.	2
NM Capital Mgmt.*	2
Republic Nat'l Bank of N.Y.	2

* as of Dec. 31

Passive style

Continued from page 4
respondents reported $48.5 billion in new equity business, with 60.8% indexed, and $24.3 billion in new bond business, with 24.3% indexed. International managers reported $4.9 billion in new international equity business during 1986.

An indication of the continued popularity of international investing is the presence of international managers among those with the most net growth in their respective size categories.

Among medium-size managers — those with $250 million to $1 billion under management — the top 10 net gainers included four international or global managers: Oechsle International Advisors, Boston, with a net gain of $299 million; Julius Baer Investment Management Inc., New York, with $269 million; Posthorn Global Asset Management, London, with $260 million; and Beutel, Goodman International PLC, London, with $251 million.

Among small managers — those with less than $250 million under management — international representatives in the top 10 were Boston International Advisors, with $144 million in net growth, and SBC Portfolio Management International Inc., New York, with $85 million.

New real estate business among managers surveyed hit $10.9 billion, a substantial increase from the $6.9 billion reported a year ago. This was due to several factors, including maintaining target allocations and participation in large and direct deals.

There were two real estate specialists among the top 10 large managers — those with more than $1 billion under management — for net growth: JMB Institutional Realty Corp., Chicago, with $4.4 billion, and Copley Real Estate Advisors, Boston, with $3.3 billion.

GICs accounted for $21.8 billion of new business, up from $17.2 billion during 1986; GIC managers said they expect continued growth, especially from defined contribution plans.

Two of the top 10 large firms for net growth benefited greatly from GIC investments. Travelers Cos., Hartford, Conn., with net growth of $5.2 billion, had $2.7 billion of this in GICs. Prudential Asset Management Group, Newark, N.J., with net growth of $3.8 billion, had nearly $4.6 billion in GICs.

Also, the biggest net gainer, Bankers Trust Co. — Investment Management Group, New York, with $13.3 billion in net growth, had $960 million flow into its managed GIC fund during the first 11 months of 1987. The fund was started late in 1986.

Portfolio insurance attracted $5.8 billion in new business, less than half of the $12.7 billion it gained during 1986.

Since the October market plunge, when many portfolio insurance programs failed to provide the promised level of protection, numerous pension funds have stopped using the strategy. The Scorecard figures for individual asset classes, however, do not reflect withdrawals. ■

Most new balanced business (net)

Top 10 managers over $1 billion

Firm	$ millions
Wells Fargo Investment Advisors	1,384
Mellon Capital Mgmt.	1,250
Manufacturers Nat'l Bank of Detroit	1,232
Boston Co.	452
IDS Equity/Fixed-Income Advisors	400
TSA Capital Mgmt.	359
Lazard Freres Asset Mgmt.	322
Oppenheimer Capital	309
Northern Investment Mgmt.	277
Prudential Asset Mgmt.	270

Top 10 managers $250 mil. to $1 bil.

Firm	$ millions
United States Trust	132
Wolf, Webb, Burk & Campbell	125
Daniel Breen	111
Morison Asset Mgmt.	105
Keystone Investment Mgmt.	85
Tom Johnson Investment Mgmt.	80
Hahn Holland & Grossman	60
First Interstate Bank of Washington	56
Wood, Struthers & Winthrop	54
Columbus Circle Investors	36

Top 10 managers under $250 million

Firm	$ millions
Scudder, Stevens & Clark	141
Palley-Needelman Asset Mgmt.	51
Hallmark Capital Mgmt.	37
Republic Nat'l Bank of N.Y.	35
American Asset Mgmt.	29
James River Capital Mgmt.	29
Chicago Group - Morgan Stanley Asset Mgmt.	27
NCM Capital Mgmt. Group	20
Cramer Rosenthal McGlynn	18
NM Capital Mgmt.*	17

* as of Dec. 31

Equity basics

Continued from page 4
performance records.

Such a record helped Sun Banks Investment Management Group, Orlando, Fla., place sixth among large firms in new equity business, with nearly $1.1 billion.

"People really cannot ignore our record," said Anthony R. Gray, president. "Whether it's one, three, five or 10 years, it's up in the first or second percentile."

In the Pensions & Investments' Performance Evaluation Report for periods ended Dec. 31, Sun Banks' commingled equity fund topped the Standard & Poor's 500 index and ranked in the top percentile for the one-, three-, five- and 10-year periods, with returns of 16.3%; a compound annual 31.4%; a compound annual 28.4%; and a compound annual 22.1%, respectively. In three of those periods, Sun Banks' portfolio was the leading fund.

Seventh among large firms was a quantitative and relatively new firm, Rosenberg Institutional Equity Management, Orinda, Calif., with $1.06 billion in new equity business.

Several managers using quantitative techniques were among the top midsize and small firms; the quants included Renaissance Investment Management Inc., Cincinnati; Disciplined Investment Advisors Inc., Evanston, Ill.; Eagle Asset Management Inc., St. Petersburg, Fla.; WEDGE Capital Management, Charlotte, N.C.; and Aronson & Fogler, Philadelphia.

The leading gainer of equity assets among those managing $250 million to $1 billion was one combining quantitative and fundamental analysis. Columbus Circle Investors Corp., New York, won $328 million in new equity business.

The firm uses its analysis to find industries and stocks performing beyond expectations, said Win Headley, vice president. The firm's goal is to outperform the S&P 500 by at least 200 basis points a year; during 1987, the firm's equity composite returned 9.8% to the S&P 500's 5.2%.

Ranking second among midsize firms was an indexer, Capstone Asset Management Co., Houston, with $324 million in new equity business. A group of principals of Tenneco Financial Services bought the subsidiary from Tenneco Inc. to set up Capstone; they took some of the parent company's pension assets with them to manage.

Despite all the interest in indexed and quantitative strategies, the top gainer among small firms was a highly fundamental manager, Ariel Capital Management Inc., Chicago, which emphasizes high-quality, undervalued companies that have been misunderstood or ignored by the market. Ariel brought in $118 million in new assets — so much that it cut off marketing efforts. ■

LTV pension

Continued from page 1
provided to the committee of unsecured creditors in LTV's bankruptcy action indicating LTV could support the plans if restored. LTV has committed to making contributions of more than $90 million annually to fund the follow-on defined contribution plan. (*Pensions & Investment Age*, Sept. 21.)

"These contributions obviously could be used instead to satisfy minimum funding obligations under the restored plans," the PBGC claims in its motion. "Assuming that they would be so used and that LTV Steel obtained funding waivers for the restored plans for the 1984-'86 plan years, the total prospective annual cost of funding the restored plans would be approximately $260 million.

"Thus, the incremental effect of full restoration, based on company figures regarding the cost of the follow-on plans, is $170 million. The PBGC believes that the effect may be even less." The total could be less than $120 million, according to the motion.

A PBGC official said LTV's current commitment to its defined contribution plan, included in a collective bargaining agreement with the United Steelworkers Union, is nearly $200 million.

The wording in the PBGC motion and comments made by PBGC and LTV representatives aren't likely to ease the tensions over the deepening legal and financial quagmire regarding the disposition of LTV's pension plans following the company's bankruptcy filing.

The opening paragraph of the filing claims LTV "promised its workers pensions, but it did not pay for them," and accuses the company of lacking concern for its retirees and using the federal pension insurance program to provide LTV with a competitive advantage by unloading its pension liabilities.

LTV's steel division has shown improved cash flow, sales, earnings and net and operating income and decreases in operating costs and expenses through the first six months of 1987. Not cited in the motion was third-quarter operating income from LTV's steel operations that amounted to $82.7 million, up $56 million from the same period in 1986. LTV's steel division is expected to post an operating profit for the fourth quarter of 1987.

Royal Dellinger, deputy PBGC director, said the filing points out LTV is using the federal pension insurance program "to take unfair advantage of other steelmakers" and if LTV succeeds in dumping its nearly $2 billion in pension liabilities on the PBGC, other steelmakers would consider similar steps to stay competitive.

"The pension insurance program was not established to provide interim financing or bailouts to employers like LTV Steel or to assist such employers to gain a competitive edge in their industries. Pension plans therefore may not be sacrificed first in bankruptcy solely to ease a reorganization or to assure 100% recovery to commercial and other creditors," according to the petition.

"Declaring restoration illegal in this case could mean, in practice, that the PBGC could never restore the pension plan of a Chapter 11 debtor, even though the debtor was operating successfully and providing ongoing benefits for its employees . . . it could become routine for employers to file for bankruptcy primarily to escape their pension benefit obligations."

A PBGC spokeswoman said the agency is seeking summary judgment because "the PBGC believes there are no material facts in dispute. . . . Also, it is a way to get a quick resolution of the lawsuit so retires will know what their entitlements are."

LTV attorney Frank Cummings said he is "distressed" by the tone of the filing as well as its content.

"They are saying 'there aren't any issues of fact and you should award us a victory.' . . . They not only said there aren't any issues of fact but that no one is entitled to discover if there are any facts. Is this agency of government so above the law that it can do whatever it pleases? If you boil it all down, what they are saying is that if they decide to do it, it must be legal," Mr. Cummings said.

"They say 'we did it and that makes it lawful,' the king can do no wrong. I respond to that by saying if the king doesn't obey the law there is no law. This case really raises that issue, whether the king can do no wrong. They simply threw the law back into the employer's face. They believe they can ride roughshod over everyone."

Mr. Cummings said the federal bankruptcy code "prevents anyone from bringing any action and taking property from the bankruptcy estate. The bankruptcy code says if you have a claim, make it. They (PBGC) have attempted an end run and are attempting to advance their financial position outside the bankruptcy court," he said.

LTV has until Feb. 22 to respond to the PBGC motion. ■

Issuers turn

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spurred insurance companies and other private placement market players to compete more strongly.

Braderick Harper, supervisor-financial planning at American Information Technologies Corp., Chicago, said: "We do private placements to some degree. I am interested in it as a financing vehicle."

In recent years, the private placement market experienced sometimes wrenching changes that resulted in a shrinkage of total privately placed volume.

Private market dealmakers witnessed keen competition for the traditional private placement product — straight debt financing — especially from the public junk market and products like medium-term notes.

The advent of shelf registration also hurt the private market; no longer were private placements the only means of doing a deal quickly and relatively less costly.

The effects of junk bonds and shelf registration on "private financing have been revolutionary, changing in a short period of time both the preferences of investors and the types of deals which get done as private placements," said David C. Sauvage, senior vice president and co-head of private placements at Shearson Lehman Hutton Inc.

While investment bankers acknowledge these products did cut into their market, Mr. Sauvage said they also have had some beneficial effects — "a certain credibility to the whole idea of investing in lesser credits."

During the past two to three years, private buyers willing to assume more risk started scouting for new investments that could generate the hefty returns they wanted. These investors set their sights on what John D. Miller, executive vice president at Equitable Capital Management Corp., New York, which has invested in excess of $10 billion in private placements, calls "enhanced return investments" such as leveraged buy-outs and corporate restructurings. He noted private investors have been lining up to get pieces of these deals.

"It's sure competitive" among buyers, said James Gleaves, vice president, American General Corp., Houston, whose private placement investments grew to more than $570 million from nothing three years ago. "We're seeing more pension funds in LBOs, and the Japanese are very aggressive. We are increasing our participation. And we'll be emphasizing it even more."

The private placement boom*

Year	No. of issues	Amount ($ bils.)
1982	1,171	24.3
1983	1,596	35.6
1984	1,789	53.3
1985	2,240	73.1
1986	2,648	1,234.0
1987**	1,233	58.4

*Private placement data include all private debt, equity and preferred offerings as well as mortgage-related investments.
**Through June 30
Source: IDD Information Services Inc.

Nathaniel Coolidge, senior vice president at John Hancock Mutual Life Insurance Co., Boston, said Hancock, which manages about $10 billion in assets, has 20 different portfolios full of private placement investments, all with different aims. "Some take bite-size deals, others take big bites. We have expanded our parameters to look at everything from AAA to B to senior debt to private equity, maturities as short as one year to as long as 25 years and invest $1 million to $100 million," he said.

Robert Morris, vice president and general manager, General Electric Investment Corp., which manages General Electric Co.'s $27.3 billion pension fund, noted GEIC's $1.4 billion portfolio of equity-linked private placements has "gone into riskier areas like mezzanine (financing) and equity layers of deals."

Merrill Lynch's Mr. Greene said the Japanese also have proven important competitors for traditional private buyers. "They've been buyers of everything from the mezzanine portion of leveraged buy-outs to the debt portion of leveraged leases. They have been very aggressive in their pricing and have tended to snap entire very attractive deals away from domestic buyers," he said.

To attract new issuers and respond to changing investor demands, private placement professionals have moved rapidly to replace their traditional private placement deal flow with a proliferation of "new age" investment vehicles. They include leveraged buy-outs and leveraged buy-out fund investments, as well as straight equity deals and debt with equity kickers.

"The market for private equity is expanding, said Scott Katzmann, vice president, First Boston Corp., New York. "We've done lots of private equity deals. And larger private equity placements are becoming more commonplace."

Other attractive private placement investments include real estate financing, project financing, and special purpose funds such as Lazard Freres & Co.'s white knight fund or Trust Co. of the West's equity kicker fund.

Investment bankers also are loosening covenants and trying to simplify the structures of private placements to make them more like public market transactions.

Since Oct. 19, private placement professionals say they have received hundreds of telephone calls from companies. Many have never tried the private market before, so the private placement specialists are trying to capitalize on the dearth of public equity offerings and limited opportunities in the public debt market.

LATE NEWS

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$94,023 this year, up from $90,000, and employees will be able to defer a maximum of $7,313 into their 401(k) plans, up from $7,000, the Internal Revenue Service announced late last week.

Late money movers

● NEW YORK — The $1.4 billion ITT Corp. pension fund has increased allocations to equity accounts managed by American Fund Advisors and GAMCO Investors Inc. and dropped Fred Alger Management Inc., according to Edwin J. Ehrlich, director of pension fund trusts.

He would not disclose the amount of the shift. All three firms are based in New York.

● LOUISVILLE, Ky. — The $35 million Louisville Policemen's Retirement Fund hired three investment managers, dropped two and reduced the allocation to a third, said William T. Crossfield, fund administrator.

Each manager hired received about $5 million. They are: Todd Investment Advisors Inc., Louisville, Ky., for fixed income; Schaenen Wood & Associates Inc., New York, equity; and Killian Asset Management Corp., Barrington, Ill., fixed income.

Released were Investment and Capital Management Corp., Rolling Meadows, Ill., which had run an $8.7 million fixed-income portfolio, and First Kentucky Trust Co., Louisville, which had managed a $2 million balanced portfolio. About $4 million was taken from Stock Yards Bank & Trust Co., Louisville, which still runs $19.6 million for the fund. Mr. Crossfield said the changes were made for style reasons.

N.Y. strategy

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cisco, said the strategy focuses "on the major capabilities" of its managers and could avoid confusion of several managers scouting for the same properties.

He added, however, that using one manager per property type requires more time to find properties and could cost the fund the investment diversification several managers would provide.

"There's nothing incorrect in doing it this way, but we prefer our clients to have a more diversified manager group," said Paul Saylor, principal of Institutional Property Consultants Inc., Atlanta. He said Ellis and TCW are good choices for their respective property types, "but maybe more than two managers will be needed to generate the kind of of deals needed to get this much money deployed."

The investments are part of a five-year plan to increase New York's equity real estate portfolio to $2.1 billion or 6% of total assets from the fund's current allocation of less than 1%.

William Ramseyer, president of Pension Realty Advisors, San Francisco, the fund's consultant, said his office recommended Ellis and TCW because of their expertise in the respective property types.

But others criticized the New York fund officials' decision to select managers for specific property types in direct investing.

"My feeling is you're better served with several managers because you increase your chances of finding" property, said Peter Jeans, real estate investment officer for the $9.2 billion Alaska Permanent Fund Corp., Juneau. The Permanent Fund has $450 million in real estate, of which about 50% is in direct ownership.

A public fund real estate officer, who asked not to be identified, said he wonders if just one manager can find all the acquisitions needed within one property type in today's tight institutional-grade property market.

Mr. Ramseyer said hiring managers based on property specification "creates more focus" in the acquisition stage than having money divided among several managers each competing for the same property type.

Ellis has about 80% of its $1.4 billion in tax-exempt assets invested in offices and retail; TCW had about 46% of its $1.4 billion of tax-exempt assets invested in industrial as of June 30.

The commitments to Ellis and, possibly, TCW will come from the $1.4 billion allocated to direct investing. The remaining $700 million of the $2.1 billion target allocation will be invested in commingled funds.

Mr. Ramseyer said management fees charged to the New York fund will be less than usual by hiring managers of specific property types, but declined to be more specific. ■

Photo by John Ken...

Robert Steves says the fund chose the strategy to avoid overlapping and inefficiencies.